

# STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

SEAN PARNELL, GOVERNOR

550 WEST 7<sup>TH</sup> AVENUE, SUITE 800  
ANCHORAGE, ALASKA 99501-3560  
PHONE: (907) 269-8800  
FAX: (907) 269-8938

CERTIFIED MAIL  
7009 1410 0002 4109 0853  
RETURN RECEIPT REQUESTED

September 30, 2010

RECEIVED

OCT 04 2010

COOK INLET  
ENERGY

Oil and Gas Exploration License  
ADL 390078

## DECISION

JR Wilcox, President :  
Cook Inlet Energy, LLC :  
P.O. Box 90834 :  
Anchorage, Alaska 99509 :

## SUSITNA BASIN EXPLORATION LICENSE NO. 2 EXTENDED

On October 23, 2003, the Department of Natural Resources, Division of Oil and Gas (division) issued Susitna Basin Exploration License No 2, ADL 390078, effective November 1, 2003, with a seven-year initial term, extendable at the Commissioner's discretion for three years beyond the initial term. The current licensee is Cook Inlet Energy, LLC (CIE) with 100% working interest.

On April 29, 2010, the division received CIE's three year extension request with terms for extending Exploration License ADL 390078. The division considered CIE's terms for extension in accordance with the exploration license term and conditions, state statutes and regulation, and on June 15, 2010, provided CIE with two options: lease conversion or license extension. CIE chose to extend the exploration license and provided the Division with a more detailed work commitment schedule that specified what work is to be completed in each extension year for a total additional work commitment expenditure of \$750,000.00 and a work schedule with two optional work paths: Work Path 1 and 2. Both work paths provide for a review of existing seismic data and a determination if additional 3D seismic 3D is required. Work Path 1 provides for the additional 3D seismic program to be conducted and evaluated, and possible well locations to be identified. Work Path 2 assumes no additional 3D seismic is required, and moves directly to work associated with and implementation of drilling. (See Attachment 1.)

The original decision in granting the subject exploration license stated: "The commissioner may, in the commissioner's sole discretion, extend this license for up to three years beyond the initial term set in Paragraph 3 if: (1) the licensee has completed the work commitment stated in Schedule 2 prior to termination of the initial term of the license; (2) the licensee requests the extension at least one year prior to termination of the initial term of the license; (3) the licensee commits to an additional work commitment under terms approved by the commissioner; and (4) the licensee has an acreage relinquishment plan approved by the commissioner."

After careful review and consideration of the detailed information provided and the terms of my original decision granting the license, I find that: in regard to (1) above, the licensee has completed the work commitment stated in Schedule 2 prior to termination of the initial term of the license; in regard to (2) above, the licensee did not request the extension at least one year prior to termination of the initial term of the license, but was unable to do so due to the unique circumstances of ownership of the license; in regard to (3) above, the licensee has committed to an additional work commitment but the proposed terms are not approved; in regard to (4) above, the proposed licensee acreage relinquishment plan is not approved.

I will approve a modification of the terms of the proposed work schedules in regard to expenditure of the extension work commitment. (See Attachment 1.) The work schedules are modified to exclude the analysis of existing data collected during the initial term of the license from eligibility for credit against the extension work commitment. It is my intention that the extension work commitment is used for new work.

I will also approve a modification of the proposed acreage relinquishment plan as follows: at the end of each extension year, if the percentage of completion is less than one-third (33.33%) of the extension work commitment in dollars (i.e. \$250,000), then CIE will identify a minimum of one-third of the total acreage (i.e. 157,142 acres) for relinquishment. (See Attachment 2.)

Finally, regarding conversion of the subject exploration license acreage to leases, per 11 AAC 82.978, such conversion is available “before the expiration of an oil and gas exploration license” and “after completion of all work commitment obligations.” This includes the total of all work commitments for this license, whether made before or after the extension. Since the work commitment of the initial term has been fully expended, conversion of any acreage to leases is therefore an option that may be exercised following the expenditure of the \$750,000 work commitment that accompanies the extension and prior to October 31, 2013.

With agreement and commitment to the terms as described above and in Attachments 1, 2, and 3, and submittal of the required bond (see Attachments 4 and 5), I approve the three year term extension for Susitna Basin Exploration License No. 2 with a new expiration date of October 31, 2013. The licensee will have the option as to Work Path 1 or 2 of Attachment 2, will notify the Division as to the company’s work path, and shall provide the Division with all data obtained to date and during the extended period. Upon completion of the total of all work commitment obligations during the three year extension and before the expiration of ADL 390078, the licensee may request conversion of all or part of the license to oil and gas leases.

Please sign and return this document indicating agreement to the conditions and terms as described in this Decision and Attachments, execute the attached Schedule 2 and the two enclosed Exploration License Performance Bond Forms and returned all of the original documents for approval by the Division. Please submit the required documents to the attention of Terry Peterson. Should you have any questions, he may be reached at [terry.peterson@alaska.gov](mailto:terry.peterson@alaska.gov) or (907) 269-8816.

A person affected by this decision may appeal it, in accordance with 11 AAC 02. Any appeal must be received within 20 calendar days after the date of “issuance” of this decision, as defined in

11 AAC 02.040(c) and (d), and may be mailed or delivered to Tomas E. Irwin, Commissioner, Department of Natural Resources, 550 W. 7<sup>th</sup> Avenue, Suite 1400, Anchorage, Alaska 99501; faxed to (907) 269-8918; or sent by electronic mail to [dnr.appeals@alaska.gov](mailto:dnr.appeals@alaska.gov). This decision takes effect immediately. If no appeal is filed by the appeal deadline, this decision becomes a final administrative order and decision of the department on the 31<sup>st</sup> day after issuance. An eligible person must first appeal this decision in accordance with 11 AAC 02 before appealing this decision to Superior Court. A copy of 11 AAC 02 may be obtained from any regional information office of the Department of Natural Resources.

Sincerely



Kevin R. Banks,  
Director

Encl: Attachment 1: Potential Work Schedules  
Attachment 2: Acreage Relinquishment Schedule  
Attachment 3: Annual Bonding Calculation  
Attachment 4: Bond Form DOG-NBBND-01 (2 copies)

I agree to all terms described and included in this Decision and Attachments:

  
~~J.R. Wilcox, President~~ David Hall, CEO  
Cook Inlet Energy, LLC

10-28-2010

## Attachment 1: POTENTIAL WORK SCHEDULES: ADL 390078

Timeframe	Path 1	Path 2
11/1/2010 Through 10/31/2011	<ol style="list-style-type: none"> <li>1) Post bond of \$250,000</li> <li>2) Determine if additional seismic (3D) is required.</li> <li>3) Identify area of additional seismic (3D) to confirm prospects and determine well locations</li> <li>4) Prepare AFE for seismic contract (3D), identify contractor and begin permitting</li> </ol>	<ol style="list-style-type: none"> <li>1) Post bond of \$250,000</li> <li>2) Determine if additional seismic (3D) is required</li> <li>3) Identify a well location for at least one specific prospect</li> <li>4) Prepare AFE for the drilling of the planned well</li> </ol>
11/1/2011 Through 10/31/2012	<ol style="list-style-type: none"> <li>1) Post required bond</li> <li>2) Finalize contracts and permits</li> <li>3) Conduct seismic program as contracted and permitted</li> <li>4) Provide data to DO&amp;G and begin evaluating data</li> </ol>	<ol style="list-style-type: none"> <li>1) Post required bond</li> <li>2) Secure rig contract and begin permitting of well</li> <li>3) Secure access to drillsite</li> <li>4) Secure drilling Title Opinion</li> <li>5) Prepare access improvements as required</li> </ol>
11/1/2012 Through 10/31/2013	<ol style="list-style-type: none"> <li>1) Post required bond (if any)</li> <li>2) Continue evaluation of new seismic</li> <li>3) Identify well locations for each confirmed prospect</li> <li>4) Secure drilling Title Opinion</li> <li>5) Prepare AFE(s) for drilling program based upon newly acquired seismic.</li> </ol>	<ol style="list-style-type: none"> <li>1) Post required bond (if any)</li> <li>2) Mobilize rig to well location</li> <li>3) Spud well and drill to desired target depth</li> <li>4) Test formations as indicated</li> <li>5) P&amp;A, suspend or complete the well</li> </ol>

Note: This schedule describes possible work paths in Cook Inlet Energy's (CIE) exploration plans to meet its Work Commitment. The initial exploration program will be determined based on existing seismic and other data, and is subject to continuous review and evaluation, and adjustment as necessary. CIE's only commitment is for the expenditure of \$750,000 in "direct exploration expenditures" as defined in AS 38.05.132 (f)(1).

## **Attachment 2: ACREAGE RELINQUISHMENT SCHEDULE**

### **ADL 390078**

This relinquishment schedule reflects modifications, requested by the Division of Oil and Gas, to the Relinquishment Schedule proposed by Cook Inlet Energy, LLC (CIE) on August 20, 2010.

October 31, 2011:

CIE will deliver a description of the actual work completed, total cumulative direct exploration expenditure, and the percentage of the extension Work Commitment completed. If the percentage of completion is less than one-third (33.33%) of the extension Work Commitment in dollars (i.e., \$250,000), then CIE will identify a minimum of 157,142 acres for immediate relinquishment, consistent with 11 AAC 82.954.

October 31, 2012:

CIE will deliver a description of the actual work completed, total cumulative direct exploration expenditure, and the percentage of the extension Work Commitment completed. If the percentage of completion is less than two-thirds (66.67%) of the extension Work Commitment in dollars (i.e., \$500,000), then CIE will identify a minimum of 157,142 acres for immediate relinquishment, consistent with 11 AAC 82.954.

October 31, 2013:

CIE will deliver a description of the actual work completed, total cumulative direct exploration expenditure, and the percentage of the extension Work Commitment completed. If 100% of the extension Work Commitment has been expended, conversion of license lands to lease under the terms of ADL 390078 and 11 AAC 82.978 is available to CIE through expiration of the license term. The license will expire at 11:59 p.m. on October 31, 2013.

Attachment 3

Susitna Basin Exploration License No. 2, ADL 390078

SCHEDULE 2

Annual Bonding Calculation

(This schedule must be updated and submitted annually to the Division of Oil and Gas)

1. Work Commitment in dollars		<u>\$ 750,000</u>
2. less	Cumulative Expenses to date	<u>\$ 750,000</u>
3. divided by	Years Remaining in License Term	<u>3</u>
4. equals	November 1, 2010 thru October 31, 2011 Bond Amount	<u>\$ 250,000</u>

STATE OF ALASKA  
ALASKA DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL AND GAS

PERSONAL BOND

BOND NUMBER CIEEL-2

PENAL SUM \$ 250,000.00

KNOW ALL PERSONS BY THESE PRESENTS,

That Cook Inlet Energy, LLC  
of the City of Anchorage State of Alaska

as operator, is held firmly bound unto the Alaska Department of Natural Resources, Division of Oil and Gas in the penal sum as indicated above, lawful money of the United States of America, for which payment, well and truly to be made, the operator binds itself and its heirs, executors, administrators, successors, and assigns, firmly by these presents. The operator's performance under this bond is guaranteed by the following security. the disposition of which shall be solely determined by the Alaska Division of Oil and Gas until released by said division.

- The attached Certificate of Deposit No. 61220610 issued in sole favor of the Alaska Department of Natural Resources, Division of Oil and Gas by First National Bank Alaska, a bank authorized to do business in the State of Alaska.
- The attached Irrevocable Letter of Credit issued in sole favor of the Alaska Department of Natural Resources, Division of Oil and Gas by \_\_\_\_\_, a bank authorized to do business in the State of Alaska.
- [Description of other approved security:]  
\_\_\_\_\_  
\_\_\_\_\_

WHEREAS the above bounden operator has agreed to meet the work commitment contained in Attachment 1 to this document for acreage described in Schedule 1 to ADL 390078.

<input checked="" type="checkbox"/> PERFORMANCE BOND - annual penal sum \$250,000.00 per AS 38.05.132(c)(4)(B)  For <u>November 1, 2010 through October 31, 2011</u> License Name <u>Susitna Basin Exploration License No. 2, ADL 390078</u> <u>Sec., Twp., Rng. and Mer.</u> <u>See Schedule 1 to ADL 390078, Susitna Basin Exploration License Area 2 Legal Description</u>
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<input type="checkbox"/>
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BOND NUMBER CIEEL-2 (continued) PENAL SUM \$ 250,000.00

This obligation shall remain in full force and effect until released in writing by the Alaska Department of Natural Resources, Division of Oil and Gas at the request of the operator.

Witness our hand and seal this 29<sup>th</sup> day of October, 2010

Cook Inlet Energy, LLC By: [Signature]  
Operator Signature

Walter J. Wilcox II, President  
Printed name and title

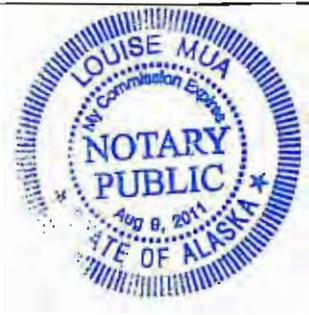
ACKNOWLEDGEMENT

State of Alaska  
Judicial District (or County of 3rd)

The foregoing instrument was acknowledged before me on this 29<sup>th</sup> day of October 2010, by Walter J. Wilcox II (name) President (title) of Cook Inlet Energy LLC (operator), on behalf of \_\_\_\_\_ (operator).

[Signature]  
Notary Public in and for Alaska

My commission expires: Aug 9, 2011



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Date Opened: 10/29/2010 Term: 365 Days

Tax ID: 27-0146643 Number: 23

CERTIFICATE OF DEPOSIT COPY AND CERTIFICATE OF DEPOSIT SIGNATURE CARD

Account Number: 61220692 61220610

Dollar Amount of Deposit: Two Hundred Fifty Thousand Dollars And No Cents \$250,000.00

This Time Deposit is Issued to:

Issuer: FIRST NATIONAL BANK ALASKA

STATE OF ALASKA ITF
COOK INLET ENERGY LLC
601 W 5TH AVE STE 310
ANCHORAGE, AK 99501-6301

PO BOX 100720
ANCHORAGE, AK 99510-0720

Not Negotiable - Not Transferable - Additional terms are below.

By CERTIFICATE COPY

Additional Terms and Disclosures

This form contains the terms for your time deposit. It is also the Truth-in-Savings disclosure for those depositors entitled to one. There are additional terms and disclosures on page two of this form, some of which explain or expand on those below. You should keep one copy of this form.

Maturity Date: This account matures 10/29/2011 (See below for renewal information.)

Rate Information: The interest rate for this account is .30% with an annual percentage yield of .30%. This rate will be paid until the maturity date specified above. Interest begins to accrue on the business day you deposit any noncash item (for example, a check). Interest will be compounded not applicable. Interest will be credited upon renewal or maturity.

- The annual percentage yield assumes that interest remains on deposit until maturity. A withdrawal of interest will reduce earnings.
If you close your account before interest is credited, you will not receive the accrued interest.

The NUMBER OF ENDORSEMENTS needed for withdrawal or any other purpose is: one

Minimum Balance Requirement: You must make a minimum deposit to open this account of \$ 750.00

You must maintain this minimum balance on a daily basis to earn the annual percentage yield disclosed.

Withdrawals of Interest: Interest [X] accrued [ ] credited during a term can be withdrawn: after maturity

Early Withdrawal Penalty: If we consent to a request for a withdrawal that is otherwise not permitted you may have to pay a penalty. The penalty will be an amount equal to: one month's simple

interest on the amount withdrawn.

Renewal Policy:

- Single Maturity: If checked, this account will not automatically renew. Interest [ ] will [ ] will not accrue after maturity.
Automatic Renewal: If checked, this account will automatically renew on the maturity date. (see page two for terms) Interest [ ] will [ ] will not accrue after final maturity.

ACCOUNT OWNERSHIP: (select one and initial)

- Single Party Account
Multiple Party Account
Trust - Separate Agreement dated:
[X] Limited Liability

Rights at Death: (select one and initial)

- Single Party Account
Multiple Party Account with Right of Survivorship
Multiple Party Account without Right of Survivorship
Single Party Account with Pay on Death
Multiple Party Account with Right of Survivorship and Pay on Death

Pay On Death Beneficiaries: To add Pay On Death Beneficiaries' name one or more:

COMMON FEATURES - The following fees may be imposed against account: Garnishments \$50.00, Executions \$50.00, Levies \$50.00

TIN: 27-0146643
Social Security or Employer's I.D. Number: Under penalties of perjury I certify that the above number is my correct Taxpayer Identification Number.
DATE 10/29/10
Backup Withholding - Under penalties of perjury I certify that I am a U.S. person (including a U.S. resident alien) and that I am not subject to backup withholding, either because I have not been notified that I am subject to backup withholding as a result of a failure to report all interest or dividends, or the Internal Revenue Service has notified me that I am no longer subject to backup withholding.
DATE 10/29/10
SIGNATURES: I AGREE TO THE TERMS STATED ON PAGE ONE AND PAGE TWO.
X
X
X